

**DIRECT TESTIMONY OF
KEITH C. COFFER, JR.
ON BEHALF OF
SOUTH CAROLINA ELECTRIC & GAS COMPANY
DOCKET NO. 2009-5-G**

1 **Q. PLEASE STATE YOUR FULL NAME AND BUSINESS ADDRESS.**

2 A. My name is Keith C. Coffe, Jr. My business address is 100 SCANA
3 Parkway, Cayce, South Carolina.

4 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

5 A. I am employed by SCANA Services, Inc. and serve as the Assistant
6 Controller of South Carolina Electric & Gas Company (the “Company” or
7 “SCE&G”).

8 **Q. PLEASE BRIEFLY DESCRIBE YOUR EDUCATIONAL AND BUSINESS**
9 **BACKGROUND.**

10 A. I earned a Bachelor of Science degree in Business Administration from The
11 Citadel in May of 1992. After fulfilling a military training obligation, I joined the
12 South Carolina State Auditor’s Office as an auditor. In August of 1995, I left this
13 position to work with the public accounting firm of Hamilton, Schmoyer & Co.
14 where I provided accounting and auditing services to clients primarily in the long-
15 term health care industry. In July 1997, I took a position in SCANA’s internal audit
16 department and in January 1999 I was promoted to Customer Billing Supervisor
17 where I was responsible for ensuring accurate billings to SCE&G’s residential and
18 commercial customers and ensuring the accuracy of accounting transactions within

1 the billing cycle. In July 2000, I was promoted to Supervisor of Property
2 Accounting where I was responsible for accounting for SCE&G's fixed assets. I was
3 promoted to my current position in October 2002 and am responsible for the
4 accounting function of SCE&G. This includes ensuring that all business transactions
5 are accounted for in accordance with applicable accounting principles and that the
6 Company maintains an adequate system of internal accounting controls. I am a
7 certified public accountant in South Carolina and a member of the American Institute
8 of Certified Public Accountants and the South Carolina Association of Certified
9 Public Accountants.

10 **Q. HAVE YOU PREVIOUSLY OFFERED TESTIMONY IN REGULATORY**
11 **PROCEEDINGS?**

12 A. Yes. I have presented testimony before the Commission in one previous
13 proceeding.

14 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
15 **PROCEEDING?**

16 A. My testimony in this proceeding recommends converting the purchased gas
17 adjustment ("PGA") administration process from a cycle month sales calculation
18 basis to a calendar month sales calculation basis and addresses the propriety of this
19 change in methodology. This change would serve to more precisely match
20 purchased gas costs under review in a particular period with the sales they support
21 and will result in the PGA administration process being handled consistently with the

Commission's approval of a similar request by the Company in its Annual Review of Base Rates for Fuel Costs (Docket No. 2009-2-E Order No. 2009-289).

Q. PLEASE EXPLAIN THE CURRENT PROCESS USED TO CALCULATE THE COMPANY'S PURCHASED GAS ADJUSTMENT.

A. The process that SCE&G currently uses to calculate its monthly PGA over- or under-collection includes the determination of the actual gas cost per therm by dividing calendar month gas costs incurred by the sales that are billed to customers during the month on a cycle-billed basis. This process has long been accepted in the administration of the PGA and in periodic reviews over the years. Nevertheless, the use of cycle-based sales in the computation results in a less precise matching of gas costs with the sales of that gas than would be the case were calendar-based sales used in the computation.

Q. PLEASE EXPLAIN WHAT YOU MEAN BY CYCLE SALES.

A. Because it is not feasible to read all meters on the last day of a month and in keeping with standard practice in the utility industry, SCE&G reads its gas meters over 20 cycles throughout the course of each month. As a result of this practice, a meter which is read in the middle of July (and the customer bill created from that reading) will actually include usage which occurred in both the month of June and the month of July. This billing that is based on meter reading schedules that differ from the actual calendar month is referred to as cycle billing and the related sales are referred to as cycle sales.

Q. WHAT ACCOUNTING CHALLENGES DOES THE PROCESS OF CYCLE BILLING CREATE?

A. The process of cycle billing creates a situation in which, at the end of any given month, there is gas which has been used by the customer but for which they have not yet been billed. This is called “unbilled revenue.” Returning to the example above, the customer whose meter was read in the middle of July will continue to use gas for the rest of the month, but that usage will not be included in a billing until after the August meter reading. Therefore, this usage will not be billed to the customer until August. Under Generally Accepted Accounting Principles (“GAAP”), the Company maintains its accounting books and records on a calendar month (or full accrual) basis. Therefore, at the end of each month, GAAP requires the Company to estimate this unbilled usage and recognize the associated revenue in its accounting records.

Q. HOW DOES THIS PROCESS IMPACT THE PGA CALCULATION?

A. For regulatory reporting purposes, total gas costs through July 31, 2009 (calendar month basis) have been included in the derivation of SCE&G’s PGA as of July 31, 2009, whereas only sales through and for approximately half of July (cycle month basis) have been included. This long-standing calculation methodology creates an under-collection of the gas costs incurred to support the unbilled sales for the month of July because these unbilled sales have not been included in the PGA calculation, whereas the related gas costs have been included in the calculation.

1 However, the Company recovers these gas costs when the customer is billed for
2 July's unbilled sales in the following month.

3 **Q. UNDER GAAP, HOW HAS THE COMPANY ACCOUNTED FOR THIS**
4 **DELAY IN GAS COST RECOVERY IN ITS ACCOUNTING RECORDS?**

5 A. As part of its unbilled revenue calculations each month, the Company
6 estimates this unbilled gas cost recovery and recognizes the impact in its financial
7 statements. This amount is recorded in a separate general ledger account (adjustment
8 account). As of July 31, 2009, the last month of the period under review, this
9 adjustment account contained a credit balance of approximately \$1.6 million.
10 Because the Company has been properly recognizing the estimated unbilled gas cost
11 recovery in its accounting records, the treatment the Company is proposing here will
12 not affect its bookkeeping processes.

13 **Q. HOW DOES THE COMPANY PROPOSE TO TREAT THIS UNBILLED**
14 **GAS COST RECOVERY?**

15 A. The Company proposes that the actual credit balance in this adjustment
16 account at November 30, 2009 be applied to the PGA under- or over-collected
17 calculation beginning with the first billing cycle of January 2010, and that this
18 adjustment account be considered in all PGA calculations thereafter. This will have
19 the effect of more precisely matching calendar month gas costs with the sales of that
20 gas and therefore more precisely state the PGA under- or over-collected balance at
21 any point in time. The proposed treatment will remove any delay of consideration of

1 this gas cost recovery in the Company's under or over-collected gas cost balance for
2 regulatory reporting purposes.

3 **Q. WHY IS THE COMPANY PROPOSING THAT THIS CHANGE BE MADE**
4 **EFFECTIVE IN JANUARY 2010?**

5 A. As this Commission is aware, pursuant to Commission Order No. 2006-679,
6 SCE&G is authorized to adjust its cost of gas factors monthly pursuant to paragraph
7 4 of the Settlement Agreement adopted and approved by this Commission. Pursuant
8 to the approved procedure and before the first billing cycle of each month, SCE&G
9 recalculates its cost of gas factors to determine whether an adjustment should be
10 made. If an adjustment is deemed necessary and after properly notifying this
11 Commission and the ORS, the cost of gas factors are adjusted effective the first
12 billing cycle of the succeeding month. Adopting the Company's proposed change to
13 convert the PGA calculation from a cycle sales to a calendar sales basis effective
14 with the first billing cycle of January 2010 aligns with the timing of this proceeding
15 and allows for the benefit of this adjustment to the customer to be implemented
16 during the heating season.

17 **Q. DOES THE COMPANY KNOW WHAT THE ADJUSTMENT IN JANUARY**
18 **WILL BE?**

19 A. No. The actual credit to the PGA will be dependent on the unbilled usage and
20 cost of gas recovery factors in effect as of the end of November and can vary
21 significantly based on weather and existing gas costs at the time. However, based on
22 the existing cost of gas factors for September 2009 and estimated unbilled usage for

1 November 2009, the Company estimates that the credit will be approximately \$8.1
2 million.

3 **Q. DOES THIS PROPOSED CHANGE IN METHODOLOGY MEAN THAT**
4 **THE COMPANY HAS INCORRECTLY TREATED THIS ITEM IN PRIOR**
5 **PGA CALCULATIONS?**

6 A. No. The existing PGA administration process has been applied consistently
7 for many years and is fully consistent with the approved PGA mechanism. The
8 Company believes that this change in methodology is a process administration matter
9 and that the proposed change will merely serve to more precisely match gas costs
10 with the sales they support while continuing to be in full compliance with the PGA
11 mechanism.

12 **Q. HAS THE BALANCE IN THE ADJUSTMENT ACCCOUNT GROWN OVER**
13 **TIME?**

14 A. Although the balance in the adjustment account may fluctuate due to the
15 seasonality of usage and gas prices, the balance in the account will always be related
16 only to the unbilled usage of the current calendar month and will never be allowed to
17 accumulate on the Company's books. In other words, it always represents current
18 dollars.

19 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

20 A. Yes. It does.